

# ISO/RTO COUNCIL

*"Promoting communication, providing mutual assistance, developing effective processes and tools, and coordinating in areas of mutual consent."*

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*Independent Electricity System Operator, ISO-New England, California ISO, New York Independent System Operator, Southwest Power Pool, The Electricity Reliability Council of Texas, Inc., Alberta Electric System Operator, PJM Interconnection, Midwest Independent System Operator*

September 21, 2005

The Honorable David H. Meyer  
Acting Deputy Director  
Office of Electricity Delivery and  
Energy Reliability  
U.S. Department of Energy  
Economic.Dispatch@hq.doe.gov

Re: Response of the ISO/RTO Council to Questions for Stakeholders in Connection with the  
Economic Dispatch Study Required by Section 1234 of the Energy Policy Act of 2005

Dear Mr. Meyer:

I am writing in response to your September 1, 2005 letter concerning the Department of Energy's study of the benefits of economic dispatch in the electricity industry on behalf of the ISO/RTO Council ("IRC").<sup>1</sup> The IRC is comprised of the Alberta Electric System Operator ("AESO"), California Independent System Operator, Inc. ("CAISO"), Electric Reliability Council of Texas ("ERCOT"), the Independent Electricity System Operator of Ontario ("IESO"), ISO New England Inc. ("ISO-NE"), Midwest Independent Transmission System Operator, Inc. ("MISO"), New York Independent System Operator, Inc. ("NYISO"), PJM Interconnection, L.L.C. ("PJM"), and Southwest Power Pool ("SPP"). A number of IRC members will be submitting individual responses to your letter that will provide detailed answers to each of your questions. Rather than repeat this information here, I would like to share a few general thoughts that are strongly endorsed by all IRC members.

Each IRC member either already has, or is in the process of developing, a regional security-constrained, centralized economic dispatch system that is open to both utility and non-utility generation on equal terms. Some IRC members also allow customers that are capable of reducing their demand when needed ("demand side resources") to participate in the centralized regional dispatch as if they were generators. As is contemplated by the Energy Policy Act's definition of "economic dispatch" each IRC member's dispatch system selects the least cost mix of resources to meet load in light of operational and reliability considerations. In addition to selecting resources for electric energy, a number of IRC members also have the ability to dispatch

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<sup>1</sup> The nine functioning Independent System Operators ("ISOs") and Regional Transmission Organizations ("RTOs") in North America formed the IRC in April 2003. The IRC's mission is to work collaboratively to develop effective processes, tools and standard methods for improving competitive electricity markets across North America. In fulfilling this mission, it is the IRC's goal to provide a perspective that balances reliability standards with market practices so that each complements the other, thereby resulting in efficient, robust markets that provide competitive and reliable service to customers.



them to provide ancillary services, e.g., regulation and reserves, that are essential to transmission system operations.

Each IRC member conducts its economic dispatch pursuant to tariff or market rules approved by its regulator. IRC members that are subject to the jurisdiction of the Federal Energy Regulatory Commission are legally bound to comply with their filed dispatch procedures under the Federal Power Act.

The use of a regional, security-constrained economic dispatch has produced lower prices and enhanced reliability in every region where it has been instituted. More specific support for these propositions will be provided in the individual IRC member comments. In general, a regional economic dispatch should inevitably result in lower prices because it enables system operators to turn to the lowest cost combination of resources to meet system needs, consistent with reliability. Use of more efficient generation can also result in environmental benefits and fuel savings. Other benefits include reduction in reliance on regulation to perform load following, better control and potentially fewer control performance violations, and prices that better reflect system conditions. The larger operational footprint often associated with pooled economic dispatch systems can also produce cost savings through reducing operating reserve requirements. By making more resources available to the system operator, a regional dispatch also promotes reliability. On a longer horizon, security-constrained economic dispatch provides effective financial signals and incentives for locating new generation and transmission facilities, which provides further cost savings to energy consumers.

The IRC believes that there is no reason for policy makers to require modifications to economic dispatch systems that are already in place, or that are under development. Some IRC members have had their current procedures in place for years. Regions that were previously organized as traditional tight power pools have had some form of economic dispatch for many decades. In short, these are proven systems that have developed over time to serve region-specific needs. They work well and do not need to be changed. Similarly, regions that have either just implemented, or that will soon implement economic dispatch systems for the first time, should be permitted to work out solutions that best suit their individual needs.

The IRC believes that the decision to move to a centralized security constrained economic dispatch system in the first instance is one that is best arrived at through a consultative regional stakeholder process.

Your letter made it clear that you were interested in studies demonstrating the benefits of economic dispatch. The following materials describe the benefits that come with having a regional dispatch and/or voluntary bid-based electricity markets based on them. They may prove helpful in your inquiry. You should also consider that the question of whether economic dispatch is beneficial has been settled in the affirmative for a long time in many regions.

- Electric Reliability Counsel of Texas, Market Restructuring Cost-Benefit Analysis: Final Report (November 30, 2004)  
<http://www.ercot.com/TNT/default.cfm?func=documents&intGroupId=83&b=>>.
- Synapse Energy Economics, Inc., Electricity Prices in PJM: A Comparison of Wholesale Power Costs in the PJM Market to Indexed Generation Service Costs (June 3, 2004)



<<http://www.pjm.com/documents/downloads/reports/synapse-report-pjm-electricity-prices.pdf>>.

- Global Energy Decision, Putting Competitive Power Markets to the Test: The Benefits of Competition in America's Electric Grid (July 2005)  
<<http://www.globalenergy.com/competitivepower/competitivepower.pdf>>.
- CSEM\_study\_of\_generatory\_efficiency\_changes\_under\_markets.pdf  
<[http://emlab.berkeley.edu/users/webfac/farrell/e221\\_s04/wolfram.pdf](http://emlab.berkeley.edu/users/webfac/farrell/e221_s04/wolfram.pdf)>.

Please let me know if there is anything else that I, or any IRC member, can do to assist you with your study.

Regards,



Jim Torgerson

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cc: Alison Silverstein  
Joe Eto